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Prendergast, William Ambrose

Address of Hon. Wm. A. Prendergast...

[New York]

[1910]

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Address of Hon. Wm. A. Prendergast, comptroller of the city of New York, to the New York state bankers' association, at its seventeenth annual convention, Cooperstown, N. Y., July 14, 1910. [New York, C. S. Nathan, 1910]

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ADMINISTRATION
OF THE
FINANCES
OF THE
CITY OF NEW YORK

308
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Box 846

HON. WILLIAM A. PRENDERGAST
COMPTROLLER

ADDRESS

OF

HON. WM. A. PRENDERGAST

COMPTROLLER OF THE CITY OF NEW YORK

TO THE

NEW YORK STATE BANKERS' ASSOCIATION

AT ITS

SEVENTEENTH ANNUAL CONVENTION

COOPERSTOWN, N. Y., JULY 14, 1910

MARTIN B. BROWN
PRESS
NEW YORK

JUN - 8 1954 KM

GENTLEMEN OF THE NEW YORK
STATE BANKERS' ASSOCIATION:

The administration of the finances of the City of New York is one of the greatest fiscal problems that confronts the people of any community in the world. It is inconceivable that such a problem should be affected or dominated by political considerations, but such has been the history of New York's finances during many different administrations. To divorce politics from city financiering is the present duty, and to prosecute that duty to the utmost is the obligation to which I have addressed myself. Party government is a feature of our national life, but party government can subsist and be made effective without its influences being permitted to course through the channels of the ordinary business functions of the government, be it national, state or city.

Bureaucracy in the conduct of the city's affairs has been used as the mainstay of the political system. The ability of the "boss" to control this or that department, or even an important integral division of a department, has frequently accounted for the success of his political sway. We have reached a time when bureaucracy must only be utilized for legitimate ends and bossism must give way to competent and enlightened leadership. Such leadership makes for the prevalence of sound principles in government and efficiency in administration. No other kind of leadership is required and no other kind will be tolerated by the people.

It is not my intention to discuss the question of New York City's finances from the standpoint of statistical tables but rather to afford an idea as to the present methods that are being employed in administering the financial

affairs of the second greatest city in the world, and the greatest municipal corporation in the world, viewed from the standpoint of financial income and outgo.

The Greater New York was ushered into existence at a time which marked the beginning of a period of great economic evolution. No period in the history of the world has been marked by so many evidences of personal and governmental outlay and extravagance as that of the past twelve years. It is not necessary to dilate upon the reasons for this condition because to a great extent they are matters of speculation, but what we do know is that the tremendous expansion of credits and the ever increasing magnitude of commercial and industrial operations seem to have produced a desire for expenditure both in public and private matters that has apparently become almost uncontrollable.

The area now comprised within the greater city, representing some 326 square miles, is composed in large part of what was farm land at the time of consolidation. The hopes of the people as to improvements in public utilities had been heightened by the arguments used in favor of a greater city, and those charged with administration were called upon to vindicate claims that a better condition of things would prevail under consolidation. At the same time they were influenced in their course by the extravagant tendencies of the period. Communities which under ordinary circumstances would be satisfied with the proverbial little red school house demanded and have received school buildings typical of the most advanced stages of our civilization, and this illustration holds good as far as almost every other form of municipal activity is concerned. Country roads have had to be transformed into well paved city streets, and although to-day there arises much complaint as to lack of activity on the part of the city in this respect these complaints merely illustrate the tremendous demand that is being made upon the city for physical improvement.

It was inevitable that the period since consolidation should be marked by tremendous increases in the city's debt, although the assessed valuations of privately owned real estate and the city's own possessions have grown apace. The population has increased from 3,200,000 in 1898, to 4,700,000 in 1910. Consolidation represented a merging of cities and country towns, and the task of the last twelve years has been to make metropolitan all these disintegrated units. The work has been stupendous; the cost great. The funded debt has increased from $229,187,140 on January 1, 1898, to $648,878,999 on January 1, 1910.

According to data collated from the most reliable and authoritative sources the increase in commodity prices from 1898 to January, 1910, has been fully 43½ per cent. The increase in land values in different parts of the City of New York during the same period has been even greater than this.

It is therefore reasonable and logical to assume that in the great public enterprises carried out by the city since consolidation a large percentage of the expenditures is attributable to the increase in land value and to the increase in the cost of material and labor. The story of these public improvements is without a parallel in any city at any time in the history of the world. Many hundreds of millions of dollars have been expended in many fields. New sources of water supply have been provided, with reservoirs to hold this water and aqueducts and mains to bring it to the city and distribute it. Subways have been constructed, others have been begun, and still others definitely planned and laid out. Bridges have been built across the East River and the land for approaches purchased. Sites for schools and libraries have been acquired and magnificent buildings erected. New docks and piers line our water front. Hundreds of public buildings for the housing of our great departments of public safety and health, such as Fire, Police, Health, Charities, and Corrections, have been placed in all parts of the city.

The progress of New York since consolidation has marked an era in municipal development and advancement.

Taking, therefore, the actual yearly issues of Corporate Stock and Assessment Bonds by the City of New York during each year since January 1, 1898, and reducing them by the yearly percentum of increase in commodity prices as compared with the average prices obtaining in 1898, it is found that of the total amount of $689,460,492, which represents the aggregate issue of Corporate Stock, Assessment Bonds and General Fund Bonds of the City of New York during that period, at least $196,524,936 could reasonably be attributed to the advance in prices of materials and land values during the years under review.

The office of the Comptroller of the City of New York is distinctly two-fold in function. Under the Charter the Comptroller is the general financial manager of the City and all its affairs, and he is also the administrative head of the most important department of the City Government. Upon assuming office, it appealed to me that the first duty that I owed to the City was to explain, without excuse or equivocation, the exact state of its financial affairs, so that the citizenship of the City and the investing public should have a correct view of its financial condition. With this in mind, a statement giving ultimate results, based on actual figures, commitments and estimates as of January 1, 1910, was published, and in this statement there appeared for the first time an explicit setting forth of the question of deficiencies due to uncollectible taxes which had been financed by the issue of revenue bonds or loans from other funds. I believe that the people are entitled to candor on the part of their City officials and that anything less than candor is a betrayal of the trust imposed by them in such officials. It has been a matter of very great personal gratification to realize that the public has appreciated this attitude of mind on the part of

its fiscal officer. That good results have followed this policy of candor is shown by the absolute success of the bond sale of March 21, 1910, when $50,000,000 of bonds were oversubscribed nearly four times, the premium on this issue being $208,000 greater than the premiums derived by the City upon a larger issue during the first six months of 1909.

On January 1, 1910, the City of New York owed for account of "land liability" the sum of $15,000,000, made up of unpaid awards and the accumulation of interest thereon. This was a legacy of previous administrations. When large bond sales had been held in prior years no serious effort had been made to liquidate this enormous liability of the City. Immediately upon the success of the bond sale in March of the present year, I issued instructions that these liabilities should be paid in the order in which they had been confirmed by the Supreme Court. In three months more than four-fifths of such total liability had been discharged.

The provisions of the Charter are such that they have imposed upon the City a policy which compels it to borrow large sums of money in anticipation of the collection of its taxes. In times past the City's necessities have been such that the financial officers have been compelled to borrow to the very limit permitted by the Charter without taking into account the inevitable deficits due to uncollected taxes. The effect has been that during a number of years these deficiencies were constantly increasing, so that in 1906 there was a deficit of some thirty-six millions of dollars. Legislation was secured which permitted the refunding of this amount, but from 1906 to the 31st of December, 1909, only three millions of dollars of this deficit was so refunded. In the meantime, there had also been additions thereto, so that on January 1, 1910, it had reached the sum of thirty-nine millions of dollars. From the proceeds of the last bond sale I have refunded three millions of dollars of this deficit, so that during six

months of this year as much has been accomplished in this refunding process as was accomplished during the four preceding years. It is my intention to refund from the next bond sale, which I anticipate will take place late this year, a further amount of two millions of dollars, so that by following this policy of refunding five millions of dollars per annum, this entire deficit would be wiped out within eight years. I have been asked why I have not made an effort to eliminate the deficit during my present term. I believe that to attempt this might overstrain our resources.

On the question of revenue bond issues I am firmly of the opinion that if it can possibly be avoided the City should never avail itself of the full limit of its borrowing capacity, but that a reasonable margin should always be left that will represent the probable deficits in tax collections. The tremendous strain upon the financial resources of the nation renders it increasingly difficult to find within the home market all the means necessary to meet the City's requirements, and for this reason it was suggested to me shortly after my election that an effort should be made to extend our market for revenue bond issues. This would be possible of accomplishment if we were able to issue, instead of a revenue bond, as called for by the Charter, a bill similar to the London County Council Bill or an ordinary commercial bill. I wish to make public acknowledgment to Mr. Isaac N. Seligman, who, shortly after my election, was the first one to make a suggestion to me upon this point. Appreciating its force, I caused to be introduced in the last Legislature a bill so amending the Charter that we now have the right to issue ordinary bills or certificates of indebtedness. This bill was passed by the Legislature and received the approval of the Governor, so that New York City is now in a position to take advantage of a broader market than was its privilege only a few months ago. In the great burden of matters that have pressed upon my attention during the last six months I have not

had the opportunity to formulate some further plans looking to a much better handling of the question of revenue bond issues. I am strongly of the opinion, however, that the City should by appropriate legislation avail itself at regular intervals throughout the year of its tax collections. Later on I shall suggest certain changes in the Charter, which will give vitality to this idea. I believe that the present policy of making practically all the collections at the end of the year is entirely unscientific.

It must be remembered that the Comptroller's office of the City of New York passes upon every question of receipt and expenditure represented in the City's business. It therefore follows that upon the character of the management of the City's affairs as reflected in the Comptroller's department will depend the general character of administration in all departments of the City government. It again follows that unless there be some adequate system of management loose methods are prone to appear, and loose methods are the progenitors of waste and extravagance.

To control expenditures effectively there must be a proper system of accounting, and unless this system of accounting has within it the proper controlling elements there will not be that close watch upon the City's revenues and its disbursements which wise management demands.

Thanks to the efforts of the Bureau of Municipal Research, whose work for better methods of City accounting and control is probably not fully appreciated by the people at large, many excellent ideas were brought forward during the years 1908 and 1909. However, no system of accounting, be it the work of the most distinguished accountants or statisticians of the time, can be made effective unless the individuals charged with its administration have the necessary ability and are imbued with a proper sense of responsibility to the City's interests.

The Charter provides for a single bureau under the supervision of the Comptroller for the exercise of account-

ing and auditing control. This bureau was to be under a Charter officer to be called the Chief Auditor of Accounts. Notwithstanding this requirement of law the auditing and accounting functions of the department had been broken up and exercised by a number of independent agencies, each having its own clientele and political support.

Working under such conditions it was not only impossible for the Comptroller to exercise direction and control, but it was impossible for him to inform himself as to what was going on. Furthermore, the fact that he was unable to bring order out of the chaos added to the value of these independent bureaus to those who were in possession of their power. Thus was the Comptroller handicapped by lack of proper organization.

Almost immediately after taking office I took steps to place all the accounting and auditing functions under the proper Charter head. For the purpose of locating responsibility and facilitating the work of the bureau two divisions were established, a Division of Disbursements and a Division of Receipts, in each of which was provided an accounting and an auditing branch.

For the first time in the history of the City a general ledger of controlling accounts has been established, and in connection therewith a daily balance book through which may be brought to the attention of the Comptroller each day the summaries of the previous day's transactions and knowledge as to whether each of the accounting processes is up to date or in arrears. From the new general ledger balance sheets may be taken off at weekly periods corresponding with the Chamberlain's accounts current, as well as periodical and comparative balance sheets, monthly, quarterly and annually, thereby enabling the Comptroller at all times to lay promptly before the officers of the City and the public a true picture of its financial condition. This general ledger is the creation of my administration and has no relation to the ledger suggested during the last year.

For the purpose of making effective the control over the accounts of the several departments of the City, a complete reconciliation of such with the Department of Finance accounts has been undertaken in co-operation with the Commissioners of Accounts, and I have just appointed a temporary staff of experts to completely analyse and determine all departmental adjustments and establish all of the accounting processes necessary to give full information pertaining to the City's business.

As a trading and contracting corporation the City has for a long time suffered from lack of credit and has been required to pay exorbitant prices, due to the conditions under which tradesmen and contractors were required to do business with the City. The main conditions adverse to favorable municipal trading have been favoritism in awarding contracts and preference in the payment of claims, making it impossible for a contractor who did not establish proper personal relations to do business with the City at a profit.

The first condition has been entirely outside of the Comptroller's charter authority except in so far as control might be exercised through his representative who was present when bids were opened, and through the establishment of a contract procedure. Such a procedure has been definitely formulated and installed since the first of the year, not only enabling the Comptroller to receive immediate notice of all contracts awarded but also to determine whether funds are adequate to meet the contract requirements before it is too late for the City to obtain protection.

The second condition—that of favoritism in the payment of bills—has been entirely within the jurisdiction of the Comptroller. During 1909 the average time taken by the City to pay supply bills was over sixty days, this average being made up of claims paid within from twenty-four hours to twenty-four months. Each claim traveled independently and each claimant ran the risk of having his

claim get into from ten to twenty-five different pigeon holes. The Chief Auditor of Accounts found himself in the position of having certain claimants who understood the ways of doing business tell him where their claims were located and what was necessary to move them along, whereas, other claimants who had not established such an acquaintance might have their claims rest in one position or another without the chief auditing officer having any knowledge of the fact, until accident or other fortuitous circumstance might bring it to light. These were conditions as unfavorable to the City as they were unjust to the trader, forcing contracts and purchases on a political or personal basis.

Since the first of the year a new procedure pertaining to the audit and payment of claims has been established in the Department of Finance, requiring that all claims shall travel in sequence—each in its regular order. Coming to the Department of Finance on a schedule and being given a serial number, all of the processes and the history of each claim are constantly kept before the Chief Auditor of Accounts by means of a chronological and numerical record through which responsibility is located for any withholding or delay. The result has been that the average time taken in the Department of Finance for the audit and payment of claims has been reduced from twenty-two days to seven days, and this average is not made up of claims requiring from a few hours to a few months, but all claims are treated alike.

In the past the auditors of the Department of Finance have been almost entirely without evidence which was competent to prove either the quality or quantity of the supplies for which claims were presented. In order that such evidence may be presented in support of each claim by persons who are competent to testify as to quality and quantity, an entirely new set of certificates has been prepared through which responsibility may be located for the truth or falsity of the statements in vouchers presented to

the Comptroller by heads of departments. Furthermore, the inspection service of the Department of Finance has been reorganized and strengthened so that the Comptroller and his auditors may have an independent statement as to the facts by means of which the credibility of the evidence presented from departments may be determined. While the reorganization of the inspection service has not yet been perfected, it is through this service that I expect to be able not only to protect the City in the payment of claims, but also to bring to the attention of the Mayor and heads of departments any misstatement of facts by employees receiving and using goods, the purpose being to protect the honest tradesman and the City against competition based upon collusion and fraud.

Quite as important as the audit of claims before payment is the audit of collections made, to determine whether the City has received the full amount to which it is entitled.

The Charter contemplates that there shall be an audit of all claims "for and against" the City. Notwithstanding this imposed duty, little or no provision has been made in the past for the audit of revenues and receipts. Until recently there were no revenue accounts through which the accrual of revenues or other accounts receivable might be established as a basis for the current audit of receipts. The Department of Finance had no means, therefore, of determining what amounts should have been collected and turned in at the time it obtained receipt vouchers from the Chamberlain; it follows that there could be no audit of receipts.

During the last administration some progress was made in establishing a documentary basis for this work in the Department of Finance. At the present time a complete audit is being made of several classes of miscellaneous revenues, such as licenses, permits, etc. Definite steps have been taken to carry this work forward and to perfect plans and organization whereby the Auditor of Receipts

may determine each day whether the moneys reported to and certified by the Chamberlain as having been received and deposited in the City Treasury should be accepted in discharge of the claims of the City.

On January 7, 1910, I presented to the Board of Estimate and Apportionment a resolution providing for the appointment of a committee, consisting of the Mayor, the Comptroller, and the President of the Board of Aldermen, to formulate specifications for the purchase of supplies and materials and to consider the standardization of such specifications. Thereafter a sub-committee, to work under the direction of the Comptroller, was appointed, since which various suggestions have been presented and considerable effective work has been accomplished.

The scope of this committee is naturally prodigious and the work which it has before it stupendous. Thus far it has been deemed well to dispose of those items which to the City government are most expensive and of greater importance. Among them is fuel, in connection with which new specifications have been submitted to the Board of Estimate and approved for adoption by the various City departments. Included in the work are classes of supplies which heretofore have been under practically no control, and purchases which have been made in the haphazard fashion inevitable to a lack of system.

In studying this vast subject of standardization the committee is now merely upon the preliminary work. Its present efforts are confined to a scheduling of the commercial name of each article, the quantities required each year by each department, the purpose for which each article is used, and the price paid for it. After all these facts have been obtained it will require an enumeration on cards, a careful perusal of each item, and subsequent conference to procure information regarding the stability, utility and economy of purchases.

It is estimated that a complete list of the supplies now purchased by the various departments will aggregate

something more than seventy thousand items, in which there appear numerous and constant repetitions of *like* articles required for different departments, or of *unlike* articles required for the same purpose. When this data has been obtained the committee will have the basic information upon which an effectual and permanent system can be built, and the city, with the support of its administrative heads, will have inaugurated a plan of economic and uniform purchasing.

The item of fuel having been temporarily disposed of, it will be essential for the committee to turn its attention to other items of immediate importance, such as the purchase of food-stuffs for institutions under the Department of Public Charities, Bellevue and Allied Hospitals and the Department of Corrections. These, together with the purchase of supplies for the Department of Water Supply, Gas and Electricity, the Police Department, the Fire Department, the Health and other departments, will give some conception of the field which it will be necessary for the committee to cover.

When it is considered that millions of dollars are expended annually by the City and that this expenditure is made for goods or commodities purchased upon a retail basis, the necessity of grouping items to be purchased under competitive bidding will be apparent. It is estimated that if the City had the advantage of purchasing its supplies on a wholesale basis a vast amount of money would thus be saved. It is anticipated that the results attained will prove of extraordinary benefit to the City, save enormous expenditures, and assist materially in decreasing and minimizing a burden which the past has developed and which the future must eliminate.

This limited summary will afford an idea of the constructive work which has been undertaken. It reflects the "new idea" in politics as manifested in administration. There are some who believe that wasteful methods in government can never be entirely eliminated, and no doubt

here is some basis for this opinion, but surely wastefulness, extravagance and corruption can be minimized, and everything possible should be done to bring about such a result. This result can never be achieved, however, if there is not the same care observed in connection with the little things in administration as with the larger things. No business can be successful wherein the small items of expense are not watched as carefully and governed as strongly as are the important questions of expenditure.

Special privilege in legislation bestowed on favored corporations is no more baneful in its effects than special privileges enjoyed by public officials and leading employees. To do just a little toward establishing an era of fair dealing between the individual and the City, to see that the rights of both are respected and the privileges of neither abused, is the policy of the present administration of the Finance Department of The City of New York.

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